TD

Distr.
GENERAL

TD/B/C.4/AC.11/3
25 November 1991

United Nations Conference on Trade and Development

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Committee on Shipping
Group of Experts on Multimodal Transport
Geneva, 9 March 1992
Item 4 of the provisional agenda

PROBLEMS AND REQUIREMENTS THAT ARISE FROM BROAD ECONOMIC REFORMS AND RESTRUCTURING OF SELECTED COUNTRIES

Report by the UNCTAD secretariat

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GE.91-52283

Abbreviations

BLASCO	Black Sea Shipping Company
BSC	Baltic Shipping Company
CMEA	Council for Mutual Economic Assistance
CNP	Czechoslovak Ocean Shipping
COTIF	Convention concerning International Carriage by Rail
CSD	Czechoslovak State Raiways
CTS	Container Transport System
DM	Deutsche mark
dwt	Deadweight tonnage
EDI	Electrinic data interchange
ETT	International Standard Tariff
ISO	International Organization for Standardization
MTO	Multimodal transport operator
MTT	International Transit Tariff
NVOCC	Non-vessel-operating common carrier
OECD	Organization for Economic Co-operation and Development
OPV	Common Park of Wagons
OSZhD	Organization for Co-operation between Railways
PKP	Polish State Railways
POL	Polish Ocean Lines
SMGS	Standard Conditions of Carriage of Goods
SMPS	Standard Conditions of Carriage of Passangers
SPK	Common Pool of Containers
TEU	Twenty-foot equivalent unit (container)
TSCS	Trans-Siberian Container Service

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INTRODUCTION

(i) The Committee on Shipping at its fourteenth session adopted resolution 67 (XIV), "Multimodal transport, including work programme".[1] In this resolution the Committee recognized in particular the need to monitor developments in the fields of multimodal transport and containerization, due to the rapid pace of structural and technological changes in these areas, and the importance of these developments for international shipping. The Committee requested the Secretary-General of UNCTAD to convene a group of experts to discuss developments in the field of multimodal transport and containerization wherever there is a sea link, "to take stock of the principal problems that are experienced by users and providers of multimodal and/or container transport operations... and to suggest elements of a future programme of work for the Committee in the field of multimodal transport and containerization".[2]

(ii) In order to facilitate the work of the group of experts, the Committee requested the UNCTAD secretariat to make available to the group a series of studies on different aspects of multimodal transport, including a study on the problems and requirements in both shipping and multimodal transport that arise from the broad economic reforms and restructuring of selected countries.

(iii) The present report has been prepared by the secretariat in response to this request. The report is based on information which has been collected by the secretariat through desk studies supported by input from different symposia on this theme recently organised by various international bodies.

(iv) The report is divided into two chapters. Chapter I discusses general features of the transformation of the transport sector caused by the broad economic reforms taking place in the countries of Central and Eastern Europe. It identifies some common problems in the field of maritime and inland transport systems in countries with economies in transition, with special attention paid to multimodal transport services. Chapter II considers the experience of transformation of the transport sector in specific countries.

(v) Because of length limitations, the report concentrates on Poland and the Union of Soviet Socialist Republics, with only very brief reference to developments in Czechoslovakia and Hungary. In order to do better justice to developments in the broad economic reforms and restructuring now taking place in former centrally planned economies, the Group of Experts may wish to recommend to the Committee on Shipping that additional work should be carried out in this field.

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1 Report of the Committee on Shipping on its fourteenth session (TD/B/1264 - TD/B/C.4/336).

2 *Idem.*

SUMMARY AND CONCLUSIONS

1. The process of transition to a market economy in the countries of Central and Eastern Europe is still in its infancy, with many uncertainties concerning the ways in which rigidly controlled, centrally planned economies should best be transformed into customer-oriented flexible systems. It is not made any easier by the recession in all spheres of economic activity and the fall in production and foreign trade. One of the main reasons for the present recession is the rupture of the established co-operation and economic relations between the countries of the region, the national economies of which were largely oriented towards their mutual trade. Revival of this trade on a new basis of mutual economic and trade interests and international division of labour will be a precondition for the rehabilitation of the economies of the countries in question. Further development of economic relations with the rest of the world will accelerate their integration into the world economic system.

2. Without efficiently functioning transport systems, the prospects for further economic development are very limited. Transport and distribution sectors will play a key role in the transition to a market economy. The countries of the region have at their disposal basic transport systems which satisfied the requirements of their economies reasonably well, but the strictly planned system was unable to ensure the necessary continious development. With high and constantly growing transport demand, coupled with insufficient investment in the transport sector in the late 1980s, over-saturation of transport systems has become evident, especially in the case of the railways. Poor technical conditions and the technological backwardness of transport equipment have become obstacles in the way of further economic development and growth of trade. As a result, there is an extensive need in this field for revitalisation, new construction and introduction of modern equipment and operating methods. In some areas significant investments are needed.

3. In this transitional process in the transport sector, emphasis should be placed on infrastructural improvement and support to create conditions of competition within the framework of the transport market. Reorientation towards the open market system is based on the adoption of corresponding legislation, permitting freedom for economic activities, equal economic conditions for different forms of property and the possibility of privatization of state enterprises. But this transition from state-controlled enterprises to joint-stock, privately owned companies is likely to be gradual. The experience of some of these countries in which privatization has been in progress for many years shows that, in the transport field in particular, small and middle-sized enterprises, may be best suited for convertion into the private sector of economic activity. The road transport and freight-forwarding sectors are the sectors of the transport business where such enterprises should first be established and supported, so that the creation of competitive environment can be stimulated.

4. For a radical improvement of performance of transport systems, the rehabilitation and further development of the transport infrastructure is necessary. Attention should be given, at first, to eliminating bottlenecks, especially at rail and road frontier crossings, and filling in gaps in the domestic transport networks. Development of transport infrastructure is characterized by high capital intensiveness and, in general, low financial return. In this field, reliance on foreign investments is considered to be essential, but foreign investors have up to now taken a very cautious approach in the countries of the region, choosing the less capital-intensive sectors, particularly the forwarding sector, as major financial investments are considered far too risky for the moment.

5. Profound changes have been observed in the organisation of the transport industry, primarily connected with the introduction of open-market elements in this sector. Previous

monopolies are disappearing, and many smaller independant units with their own responsibilities, oriented towards the customers' requirements, are being created. In this process, countries should refrain from simply copying existing models and relying on foreign expertise. Traditions, national features and local aspects of development and achievments should be taken into account and used to the utmost in the introduction of a new economic system.

6. The speed and mode of privatization for small businesses and large companies differ. In the process of economic reform, large state-owned enterprises are being converted into commercial companies, often with a predominance of state ownership of shares. Such is the case of the shipping industry, where a high capital intensity and lack of interest on the part of domestic and foreign investors prevents rapid privatization. Under the new economic conditions, shipping companies are allowed much greater freedom in respect of their management and performance, in particular in relation to setting their own freight rates, establishing joint ventures with foreign companies and mortgaging their fleets when ordering newbuildings. Simultaneously, the shippers now have freedom to choose their carriers, and this has contributed to the establishment of competition in the transport market and placed the national shipping companies in a more difficult situation.

7. To maintain their position in domestic and world markets, shipping companies need to replace their ageing fleets. This has become difficult because the transition of the countries to a market economy poses many other urgent problems and fleet renewal is not the top priority among them. Upgrading the level of service and introducing multimodal integrated transport services matching those services offered by foreign competitors will, no doubt, contribute to the strengthening of the position of national shipping companies in the transport market.

8. Railways are the main means of transport in the region. With the rejection of planned economy principles and state control over foreign trade, which favoured railways irrespective of customers' preferencies, the railways will have to face competition from other modes of transport and will lose some of their traffic. The liberated capacity could be diverted for the use of combined rail/road traffic in the shape of multimodal door-to-door transport services so as to made it possible to meet customers' requirements more satisfactorily and, at the same time, relieve the road networks. However, to realize this potential, massive investments are required in infrastructure, rolling stock and safety systems, in line with the introduction of modern operation methods.

9. Monopolistic organisation of transport systems in the countries of the region and the absence of a competitive environment have been the main hindrances in the way of the introduction of modern multimodal transport services. Because of the absence of demand, domestic freight-forwarding was practically non-existent. Since the liberalization of economic conditions, new operators have emerged in the fields of freight forwarding and multimodal transport operations. They have been created to provide import and export services in competition with the previously monopolistic state organisations associated with foreign trade ministries. Besides this function, they encompass storage, packing, customs-clearance and integrated transport services for national and foreign customers.

10. This special area of transport activity has benefited from foreign interest in creating joint ventures, since it is less capital-intensive and does not involve high risk, but does require expertise and know-how. The joint-venture route is considered by foreign interests as the most attractive one for establishing operations in the countries of the region and accessing their transport markets. In this connection, it should be noted that domination by foreign mega-operators at the expense of the national companies, especially in the fledgling freight-forwarding and multimodal transport sectors of the countries with economies in transition, is a real menace for national industries.

11. State support and protection in the form of freight incentives, tax relief, direct financial subsidies and credits may be required for the survival of the national transport enterprises in the market environment. This is especially important when large-scale foreign companies penetrate spheres previously dominated by national operators.

12. Lack of experience and shortage of trained and experienced managerial staff for dealing with different aspects of multimodal transport operations may be the main handicaps which need to be tackled with the assistance of international co-operation. Technical assistance on legal, statistical, marketing, accounting, tax, banking and insurance questions will made

a valuable contribution to the development of the different fields of activity in general and the multimodal transport sector in particular. The Group of Experts may wish to make recommendations to the Committee on Shipping in this respect. In particular, the Group may wish to request the UNCTAD secretariat to arrange workshops on multimodal transport in order to assist these countries with the rapid and effective introduction of the concept of multimodal transport in their transport services.

13. In the rehabilitation of their transport systems, as in other sectors of the economy, the countries of the region have to rely primarily upon their own human and material resources. These resources comprise thousands of highly educated and motivated people, as well as world-class transport and industry, research and science institutions. The region also posesses the world's largest reserves of various vital mineral and other resources. With the profound economic reforms that taking place, this potential is being freed from the constrains which were imposed on it by a rigid administrative system. Re-establishment of close mutual co-operation on a new, sound economic base and consequent integration into the world economic system will open up good opportunities for the future massive economic growth of the region. The transport sector will be a beneficiary of and, at the same time, a contributor to such development.

Chapter I

GENERAL ASPECTS RELATING TO THE TRANSFORMATION OF THE TRANSPORT SECTOR

A. General economic background

14. As a result of the profound economic and political reforms in the USSR, started in 1985, and the political changes and upheavals that have since taken place, new government structures have arisen in all countries in the Eastern and Central Europe. The once fundamental concept of the centrally planned and administered economy has been abandoned to be replaced by market-oriented economic models. Among the most important economic objectives are: privatization, organisation of a modern financial and banking system, reforms in legislation, restructuring of production and foreign trade, transition to convertibility of national currencies, and the establishment of capital markets and securities markets. But the countries of the region differ widely as regards the degree to which the new economic model to be adopted has been defined, legislation to support such models and create the necessary institutions passed, and the path for the transition from one régime to the other mapped out.[3] By the end of 1990, in some countries certain of these tasks has been resolved, while in others even the first steps were still to be taken.

15. Reform of foreign trade is a major component of the general process of economic change in these countries. Efforts in this field have been aimed at decentralizig foreign trade activities, abandoning the state monopoly and setting up various economic mechanisms to facilitate this process. Reforms of the economy in general and of foreign trade in particular are necessarily connected with the transport sector, which plays a major role in the performance of the national economy.

16. This broad process of transformation of rigidly controlled, centrally planned economies into market-oriented economic systems involves, in the transport sector, measures aimed at the creation of a competitive environment, abolition of state monopolies with privatization of state property, and consequential modifications in legislation.

17. The duration of this process depends on local conditions and varies in the different countries of the region. Many negative factors significantly influence the progress of change in the region, such as high foreign debt and poor balance-of-payments positions, a high level of inflation and the absence of the necessary expertise in the field of market economy and legislation, as well as delays in restructuring of industries and a subsequent technological backwardness. Political instability is one of the major obstacles to a smooth transition to a market economy.

18. Lack of open-market traditions is one of the obstacles on the way to a quick transformation of the economies in the region, and in this respect international co-operation may play an important role. But it should be kept in mind that general guidelines or remedies to accelere the transition or make it more painless do not exist. Foreign consultants (ranging from retired chief executives to young graduates) lured to these countries are in general inexperienced in local and national traditions, affairs, conditions and requirements. Sometimes they may represent nothing but danger for their clients.

19. The immediate economic consequence of the political changes in Central and Eastern Europe and in the USSR has been sharp falls in output and living standards. In addition, the situation with foreign debts has further worsened. By the end of 1990 the external debt of Hungary was

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3 Economic Bulletin for Europe, Economic Commission for Europe, Geneva, volume 42/90, pp. 12 - 13.

about $US 22 billion and annual repayment was about $US 3.7 billion, the highest per capita level of any country of the region.[4] The external debt of the Soviet Union was about $US 60 billion, and the annual repayment was $US 12.5 billion in 1991.[5] The recession, which was already apparent in these countries by late 1989, spread throughout the region and deepened significantly in 1990, when industrial production in Eastern Europe was more than 18 per cent below its level in 1989. The declines were general and ranged between 4 per cent in Czechoslovakia and 27 per cent in Poland.

20. Table 1 shows the changes in the basic economic indicators of these countries in the period 1976 - 1990.

Table 1

Eastern Europe and the USSR: Basic economic indicators, 1976 - 1990
(Average annual and annual growth rates, in percentages)

Country or group, indicator	1976-1980	1981-1985	1986	1987	1988	1989	1990
Eastern Europe							
Net material product	3.6	2.2	4.6	3.2	3.1	-1.5	-11
Industrial output	5.6	2.7	4.3	3.3	3.4	0.2	-20
Agricultural output	1.9	1.1	4.5	-4.3	0.6		
Gross investment	2.7	-0.7	3.9	4.7	2.3	-1.5	-22
Exports	6.5	5.1	-1.2	1.4	3.7	-2.5	-15
Imports	4.1	0.7	4.8	3.4	3.3	0.6	-10
USSR							
Net material product	4.3	3.2	2.3	1.6	4.4	2.4	-4.5
Industrial output	4.5	3.6	4.4	3.8	3.9	1.7	-1.5
Agricultural output	1.7	1.1	5.3	-0.6	1.7	0.8	
Gross investment	3.3	3.5	8.3	5.7	6.2	0.6	-12

Source: : Secretariat of the United Nations Economic Commission for Europe, based on national statistical publications, plans and plan fulfilments reports.

21. Since the end of the Second World War, economic co-operation and the international division of labour in the Central and Eastern European countries among themselves and with the USSR have become a vital factor for their development. The weakening of co-operation and economic relations was one of the main reasons leading to the major disturbances that have occured in the functioning of their national economies. Most Central and East European countries had the USSR as their main supplier of energy, raw materials and machinery and used its vast and absorptive market for their manufactured goods. This specialisation is now partly responsible for the fact that manufactured goods from these countries cannot find markets in the Western European countries.

22. There was an unprecedented fall in the volume of trade among the European countries members of the Council for Mutual Economic Assistance (CMEA) by an estimated 14 to 16 per cent in the first half of 1990, continuing a decline that had begun already in 1989. Data on changes in the value of intra-CMEA trade flows in 1988 - 1990 are shown in table 2.

23. Despite some efforts directed towards reviving intra-regional trade, its volume continued to fall in the course of 1991. The main reasons for such a fall were lack of hard currency and the loss of traditional co-operation connections. According to the International Institute for Applied System Analysis (IIASA) in Vienna, the first quarter of 1991 saw a further fall of 41 per cent in Soviet exports to the other countries of the region and a fall of 48 per cent in its imports from these countries. This fall, according to the Institute, means a further decline in national income and loss of employment and is catastrophic for the economies of the countries of Central and Eastern Europe. The present situation is such that normal functioning of these countries' economies cannot be ensured without continued trade and economic co-operation between them, since significant

4 *Journal of Commerce*, Washington, 15 January 1991, p. 1.

5 *Izvestia*, Moscow, 7 March 1991, p. 3.

Table 2

Eastern Europe and the USSR: Intra-group trade, 1988-1990
(Value in billions of transferable rubles; growth rates in percentages)

Reporting country or group / Partner country or group	Exports				Imports			
	Value	Growth rates			Value	Growth rates		
	1989	1988	1989	1990	1989	1988	1989	1990
Eastern Europe to								
Eastern Europe	22.19	5.8	-1.5	-13.7	21.77	4.9	-1.8	-17.7
USSR	35.63	2.6	-2.5	-10.0	31.00	-7.0	-5.9	-17.1
USSR to								
Eastern Europe	31.72	-4.6	-3.2	-14.9	35.80	2.6	1.7	-2.0

Source: Secretariat of the United Nations Economic Commission for Europe, based on national statistical publications, plan fulfilment reports and (for 1990) in part on trade partner data.

resources and production capacities in the countries are oriented towards their mutual trade. Under the new conditions, this co-operation should, however, be developed on a new basis of mutual economic interest and natural economic gravitation.

24. At the end of 1990, the Executive Committee of the Council for Mutual Economic Assistance (CMEA) approved a project for the total restructuring of the economic co-operation system between the CMEA member countries. As from 1 January 1991, all trade between the former CMEA member countries has been conducted at current world market prices and settled in convertible currencies.[6]

25. Demands for capital investment in both public and private sectors of the countries of the region have grown further. It has been suggested that the region will need as much as two trillion ECUs[7] to develop its infrastructure and private sector, yet real investments remain scarce and the restructuring of the economies seems to be a very long process. The following measures are considered as urgent for the transformation of economies and the creation of new economic conditions for the state-owned and newly established private sector in the countries in transition:

(a) Changing of the pricing rules; official prices established by government agencies are gradually being abandoned in favour of so-called "agreed" prices settled between the parties to a contract;

(b) Replacement of the system of central distribution of goods and materials by distribution performed according to market rules and the principle of profit maximization (for sellers) or cost minimization (for buyers). The level of prices in such a system depends on the balance of supply and demand;

(c) Introduction of free entreprise principles and of the possibility for economic activities in any area to be performed on one's own behalf and on one's own account; and

(d) Abolishion of the state monopoly of foreign trade and the use of mechanisms such as customs duties and the currency rates as price regulation mechanisms.

26. These measures, especially the adjustment of prices and currency rates, have been connected with many problems leading to the growth of inflation, a quick drop in living standards and consequential falls in production and the spread of unemployment. This situation has led to profound disappointment within the population and a loss of popular support for the current economic reforms.

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6 However, in June 1991, in view of the sharp fall in mutual trade and the lack of convertible currency, the countries agreed to settle accounts either in rubles or in the currencies of each participating country.

7 *Lloyd's List*, London, 15 April 1991, p. 1.

B. Impact of economic reforms on the transport sector

27. The former European CMEA member countries posess quite well developed transport systems which permitted them to satisfy reasonably well the requirements of their economies and their foreign trade. A system of international multilateral co-operation in the transport field was established, primarily within the CMEA, the principal aim of which was the mutual adaptation of national transport systems and the progressive creation of integrated transport networks. The main areas of this co-operation were joint planning, including formulation of common transport policy principles, co-ordination of plans for international traffic, joint construction of transport infrastructure, transport legislation and commercial activities, including tariff questions.

28. The modal split of inland transport in the CMEA countries in 1988 is shown in table 3.

Table 3

Split of transport by mode in European CMEA countries in 1988
(Millions of tons)

Country	Rail	Road	Inland waterways	Pipeline
Bulgaria	79.3	326.0	3.7	-
Czechoslovakia	295.0	340.0	15.2	19.5
German Democratic Republic	349.0	143.0	19.0	37.0
Hungary	112.0	211.0	3.9	17.9
Poland	428.0	105.0	15.6	43.1
Romania*	283.0	362.0	18.4	21.3
USSR	4,116.0	6,921.0	691.0	663.0

*1985

Source: CMEA Statisical Yearbook, Moscow, 1989.

29. However, the strict planned-economy system was unable to generate continually the dynamism necessary for ensuring development because of lack of productivity incentives. Central planning and management covered a wide range of operational and economic activities, including strict demand and supply regulation, planning of the transport modal split, fixing of freight and passenger rates, foundation and dissolution of transport companies, centralisation and redistribution of centrally planned investments, and elimination of competition between operators.

30. In the general economic context, all countries of the region have accumulated legacies from the administrative and command economy, including:

(a) Domination of the structure of industry by heavy industries with high energy and material intensity of production;

(b) Often neglected and obsolete infrastructure; and

(c) Trade excessively oriented towards one another's markets.

31. These features influenced the development of the transport sector, which suffered from inadequate investment and obsolescence of assets. As a result, the transport sector of the countries of the region is characterised by:

(a) Very high transport demand, leading to constant pressure on the transport system in general and on the infrastructure in particular;

(b) Under developed infrastructure from both the qualitative and the quantative points of view, with missing or insufficient east-west links and transshipment capacities at the border crossings, as well as insufficient port and terminal facilities and capacities;

(c) Over-saturation of the transport infrastructure, especially the railway systems;

(d) Monopolistic organisation in the transport field and consequential lack of competition;

(e) Insufficient investments in the development of transport infrastructure and rolling stock, and poor use of modern transport technologies; and

(f) Inefficient international co-operation.

32. Liberalisation of the economic environment and the appearence on the business scene in the countries in transition to the market economy of many new independent enterprises has given rise to new requirements for transport services in domestic and foreign markets. This new economic situation has created the conditions for the establishment of smaller independent transport companies in different fields of activity, responsible for their own activities and oriented to the customers' needs. This has led to profound changes in the organisation of the transport sector and to the abolition of the monopolistic position of the large state companies. As a result, an environment for competition between different operators is being created, requiring more flexibility from the transport companies in their fields of activity in responding to the customers' and economies' requirements.

33. At the same time, existing large state-owned companies continue to play a leading role in the transport scene, profiting from their long-established experience. The role of these enterprises and their advantages as large companies are especially important in dealing with competition from foreign large-scale (mega) operators, which have already appeared in the transport markets of the region. But in order to withstand such competition, the national companies should improve their performance by properly restructuring and exercising strict financial discipline. They should endeavour to provide a level of service comparable to that provided by their foreign competitors and matching the requirements of customers.

34. In this regard, however, national enterprises may need some support and protection from the State. Their fate should not be entrusted solely to market forces or to foreign investors. The State should provide prospective enterprises with freight incentives, tax relief and other financial assistance to bolster their growth and competitiveness. The State must continue to exercise its ownership function in respect of state-owned enterprises, especially in connection with restructuring and possible privatization. A predictable business environment in respect of credit, public administration, taxes, and the legal regime, especially in relation to property rights and business contracts, has major importance for the sound functionning of the transport market.

35. Establishing joint ventures is considered by potential investors as the most attractive way for penetration into these new markets. To date, foreign investors have primarily chosen a "soft option" in the transport field, favouring the less capital-intensive sectors such as freight forwarding where sometimes only minimum capital investment but good expertise is needed. Despite the large growth in the number of foreign investment registrations in the countries of the region (fourfold from January 1990 to January 1991), the actual size of foreign investment projects and the capital contribution by foreign partners have been quite small. At the beginning of 1991, the cumulative total of foreign capital invested in the USSR amounted to $US 3.15 billion. The average level of joint statutory capital in the Soviet Union decreased from 6.9 million rubles in 1987 to 2.0 million rubles per venture in 1990, and the average foreign participation during the same period dropped from $US 3.9 million to $US 1.2 million.[8]

36. In this connection, it must be borne in mind that without a modern and effectively functioning transport system based on a sound infrastructure, the overall business prospects in the region are limited. No effort should be spared for the development of such transport systems, and joint ventures have their role to play in this process. The joint venturs, however, should be carefully planned and strategically approached in response to local and world transport needs, and not merely short-term money-making intentions.[9] In their operation, the existing managerial system with its deeply rooted principles, traditions, values and priorities should find its place.

37. This system may not have served as badly as has been assumed in the west. The principles of economic planning and the state system of social security were introduced for the first time in the USSR. In spite of the difficult economic realities of centralized planning, state monopoly and constant shortages of different kinds, a remarkable number of socialist enterprises have produced usable, sophisticated products and cared for their workers as well. Certain western economists, studying the Soviet managerial system, have reached the conclusion that some features of the Soviet management system are clearly worth preserving. They need to be incorporated into the operations of joint ventures, which will thus be "in a unique position to combine the complemen-

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8 *East-West Joint Ventures News*, Economic Commission for Europe, Geneva, February 1991.

9 Unfortunately, there are many examples, where, transport enterprises of Central and Eastern Europe, after choising their joint-venture partner hastily and without due enquiries, have found themselves in a difficult situation and suffered heavy losses.

tary strength of lateral networking with the close vertical integration of the structural task units and its democratically centralized decision making."[10] This is especially pertinent in the area of transport in the European countries in transition, where a relatively sound transport infrastructure is in place but where there is a lack of modern methods of operation, organisation and marketing.

(i) Merchant marine

38. The development of sea traffic in CMEA countries in the period from 1980 to 1990 is shown in table 4.

Table 4

Development of seaborne trade in CMEA countries
(Millions of tons)

Country	1980	1985	1986	1987
Bulgaria	24.7	22.8	24.8	25.9
Hungary	0.75	0.99	0.94	0.96
German Democratic Republic	12.6	11.4	11.6	13.1
Poland	39.6	31.9	29.9	30.2
Romania	16.2	25.7	-	-
USSR	228.3	239.7	249.6	251.7
Czechoslovakia	1.7	1.9	1.9	1.6

Note: For all countries except Poland, tonnage carried by national flag vessels; for Poland, the tonnage carried by national and foreign flag vessels. Almost all volume is carried in international traffic, except for the USSR, where on average 82 millions ton is carried in national traffic.

Source: Statistical data of the Maritime Transport Department of the University of Gdansk.

39. Since about 1987, a new economic policy approach, first announced in the USSR, has been gradually applied, although to varying degrees, to the transport sector of the countries of the region. As regards the merchant marine, many functions formerly carried out by ministries were transfered to other entities involved in marine activities in order to promote cost-effectiveness and competition. Shipping companies were, in mid-1991, still subordinate in some respects to their ministry, but they were allowed much greater freedom in respect of their management and performance. At the same time, in some countries the merchant marine will continue to be subject to certain social and economic obligations. For example, in the Soviet Union, transport services for the Soviet Arctic regions and the Far East will remain the responsibility of the central government.

40. Replacing of ageing fleets is urgently required, even if it is not a top priority in countries which have so many other calls on their funds as they attempt to make the transition to the market economy. Since shipping companies are now able to mortgage their existing fleets, obtaining finance abroad is one of the possibilities for assisting fleet renewal. Companies have also been given the freedom to seek loans from foreign banks. A taxation system has been created which should allow companies to retain sufficient hard-currency revenues to meet mortgage installments.

41. Still, in the area of vessel purchasing, the independence of shipping companies cannot be assured completely because the companies have not, in general, sufficient funds in their possession. Shipping companies can have access to funding from foreign banks with ministerial approval, and in the USSR a special bank for shipping has been established - Morbank - with the goal of providing shipping companies with special banking terms and flexibility in banking arrangements for ship purchasing.

42. If, previously, shipping companies were amalgamated with other entities involved in shipping (ports, ship-repair yards, container and other equipment-construction facilities, etc.), these entities are now acquiring autonomy in the course of the economic reforms. Other changes concern the freedom for shippers to choose carriers and the freedom for carriers to set their own freight rates, the introduction of a new taxation scheme, and granting of the power to set up joint ventures.

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[10] *Harvard Business Review*, Boston, November - December 1990, p. 59.

(ii) Multimodal transport

43. At the beginning of the 1970s, the CMEA member countries signed a multilateral intergovernmental agreement on the establishment of the unified container transport system (CTS) for use in trade between member countries as well as with third countries, of general-purpose containers with a gross mass of 10, 20 and 30 tons and dimensions recommended by the Intenational Organization for Standardization (ISO). The agreement provided a network of regular international container services by rail, road, sea and air linked to domestic container services in the member countries. Over 50 regular international services and many container terminals were put into operation under the agreement.

44. In 1978, an international agreement on the joint use of containers in international transport (SPK) was signed, establishing a common pool of ISO containers of member countries. The free movement of containers greatly eased operations, and traffic moving under the SPK system increased at a substantial annual rate. The total volume of cargo moved in ISO containers between the countries concerned by 1989 reached about 5 million tons, or fivefold that in 1980. Moreover, the operation of the SPK pool permitted a significant reduction in the haulage of empty containers (from 40 per cent in 1980 to 14 per cent in 1989). A significant imbalance of container flows in trade with the USSR remained an acute problem for the development of container transport in the region. The major share of containerized traffic in domestic and international trade was carried by rail transport (about 70 per cent), followed by sea transport (25 per cent).

45. The dismantling in January 1991 of the multilateral SPK agreement and its replacement with a series of bilateral treaties has severly influenced the effectiveness of container services in the region. Nowadays, such bilateral agreements between countries mean that, for example, containers travelling between Hungary and the USSR are only allowed as a two-way trade and cannot be rerouted to a third country. Together with the slump in the trade in the region, this resulted in 1990 in a sharp decline in container traffic, in some services by up to 30 per cent and even more.

46. Container traffic flows among the European CMEA countries in 1987 is shown in figure 1. The development of sea container traffic in some European CMEA countries in the period from 1980 to 1987 is shown in table 5.

Table 5

Development of sea container traffic in European CMEA countries
(Thousands of TEUs)

Country	1980	1985	1986	1987
Bulgaria	206,6	239,3	279,3	307,7
German Democratic Republic	527,5	976,8	1,308,5	1,645,6
Poland	648,4	1,756,5	1,554,9	1,604,9
USSR	6,143,9	9,085,5	9,581,7	10,578,9

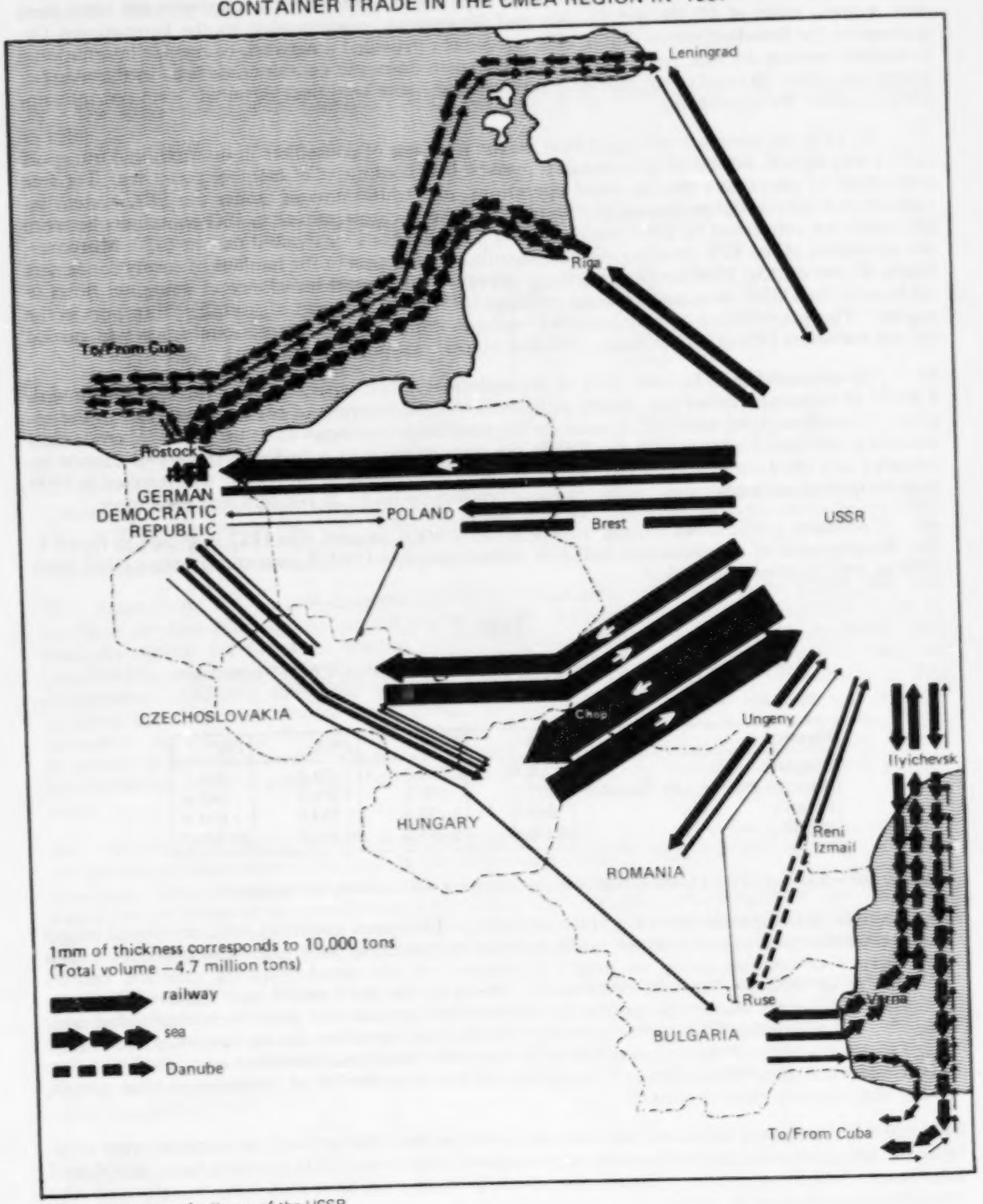
Source: Statistical data of the Maritime Transport Department of the University of Gdansk.

47. Shipping companies from Central and Eastern European countries have developed inland haulage services and inland haulage tariffs in their operations in west European ports, with their own agency companies acting as freight forwarders or non-vessel-operating common carriers (NVOCCs) or through Western companies. However, in the Central and Eastern European countries themselves there were practically no such services or they have been established only recently. All multimodal transport and freight forwarding operations for foreign trade and transit cargo in these countries were carried out by monopolistic state organisations associated with foreign trade ministries. Most domestic container services were limited to station-to-station moves, rather than door-to-door transport.

48. With the current economic reforms, the situation has changed and new independent commercial freight-forwarding and multimodal transport operators (MTOs) have been established alongside the existing state organisations, which in their turn have also been transformed into stockholding companies.

Figure 1

CONTAINER TRADE IN THE CMEA REGION IN 1987



Source: Ministry of railways of the USSR

49. The inadequacy of telecommunications systems in the countries of the region is regarded as one of the main barriers to the introduction of modern multimodal transport operations. Telecommunications and the introduction of the electronic data interchange (EDI) systems are areas in which radical improvements are essential and where international co-operation may also bring the best and fastest results.

50. Concerning the introduction of combined rail/road transport technology, a recent study[11] has revealed that it will take several years before this technology can be developed in these countries to the stage at which it can become a competitive transport alternative. Such development would require efforts on an extraordinary scale which are unlikely to be made in the present economic circumstances.

(iii) Rail transport

51. For many decades the railway systems in the Eastern and Western parts of the European continent have been developing in a separate manner. In Western Europe, railway traffic has essentially developed along a north - south axis. New high-performance railway lines have been constructed or projected in the past decade, but in general, rail transport in Western Europe has been loosing its position in the competition with road transport, which has decisive advantages in door-to-door deliveries.

52. In Central and Eastern Europe, where railways have played the role of the main means of transport, assuring about 70-80 per cent of cargo traffic in international trade, railway transport always received priority in State plans for the development of transport communications. Governments made considerable efforts to put the railways back in operation after the Second World War, recognising that economic development was not possible without efficient transport. In these countries, freight and passenger rail traffic kept increasing because of the considerable transport demand generated by the development of industrial, mining and agricultural output and the international trade between them.

53. With regard to infrastructure and rolling stock, Central and Eastern European railways are comparable to the rest of Europe, but their condition deteriorated owing to insufficient investment, especially during the transition period of profound economic reform. In terms of their capacity, they have met the demands of their economies, though the quality of service provided is in general lower than in Western Europe.

54. The regulations governing railway transport between the countries in question were the Standard Conditions of Carriage of Passengers and Goods (SMPS and SMGS) and the standard international and transit tariffs (ETT and MTT). A common pool of ISO containers (SPK) was formed and a common park of wagons (OPV) established. The currency for inter-railway settlement was the non-convertible accounting ruble.

55. International co-operation of the railways was ensured by the Organization for Co-operation between Railways (OSZhD). Within this Organization, members co-ordinated and optimized the schedules of international train operations, volumes of goods traffic and rationalization of international routes. Intensive work on standardization of rolling stock and infrastructure and on exchange of experience in the field of railway transport technologies was also carried out within OSZhD.

56. The central management of economies and the centralized allocation of resources and of the use of transport capacities were essential factors for the operation of the railways and co-operation between them. With the disappearance of the centrally directed economies, these factors, as well as the regulations based on them, have been becoming progressively less significant. The SPK container pool ceased to exist at the end of 1990 and the OPV common park of wagons was dissolved in mid-1991.

57. The changes in the economies have consequently disclosed certain deficiencies in the established regulations and tariffs, such as:

(a) The non-convertibility of the currency used for settling claims between railways;

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11 "Transport between the Nordic Countries and the New Central and Eastern Europe", report prepared for the Nordic Council of Ministers, Stockholm, April 1991.

(b) The non-flexible character of tariffs, which went unchanged for long periods of time; and

(c) The simultaneous membership of some countries in SMGS and SMPS and in the Convention concerning International Carriage by Rail (COTIF) and the lack of freedom of choice of the most convenient agreement.

58. Since 1 January 1990, amendments have been introduced to the SMGS and SMPS with the aim of updating these regulations to meet modern requirements. The currency problem is no longer such an important issue in most Central and Eastern European countries, as their currencies are about to become convertible. Since the beginning of 1991, tariffs are being completely revised and settlements between the railways carried out on the basis of convertible currencies. However, in June 1990 Czechoslovakia and Hungary denounced these agreements, though continuing to use their conditions in trade with the USSR.

59. OSZhD is continuing its work on the actualisation of these agreements and at the same time has initiated the elaboration of a new convention on rail carriage of passangers and goods. Certain structural and organisational changes are planned within OSZhD, and new activities are proposed for inclusion in its programme of work in order to take into account new requirements of the transport industry such as just-in-time and door-to-door delivery concepts. Co-operation in the field of investments and technology necessary to meet these requirements is one of the new proposed activities of the organisation.

60. Though traditional trade between the countries of the region has retained its importance, the countries are now also strengthening their trade and transport connections with Western European countries. However, in their operations under the new economic conditions, railways have become more and more exposed to competitive pressures from other modes of transportation. In the general economic context, rejection of the principles of the planned economy is likely to do more harm than good for the railways in Central and Eastern Europe, since the State control which applied to foreign trade as a whole in the past also dictated the choice of transport mode and favoured railways. Previously, the major part of the traffic inside and between these countries, as well as with the rest of Europe, was transported by railways, irrespective of customers' preferences. The railways now have to face competition from other modes of transportation, even for traffic within the countries, and as a result they are losing some of their traffic. However, the liberated capacities of railways may be used for combined rail/road transport in the context of multimodal door-to-door services which will make it possible to meet customers' requirements more satisfactorily.

61. Investments in assets and a modern sales and organisational approach are necessary for any significant upgrading of the commercial performance of railways in Central and Eastern Europe. However, most Governments lack the required financial resources, and there is therefore an urgent need for borrowing to finance rehabilitation of railways, especially infrastructure and rolling stock renovation.

(iv) Other branches of the economy relating to transport

62. Different areas of the economy related to the services and transport sector are undergoing profound transformation in the region. Adoption of the Securities and Stock Exchange Act in June 1990 in Hungary provided investors with legal guarantees, stating the obligations with regard to the disclosure of information and establishing the necessary legal framework for the founding of a stock exchange. Stock exchanges have also been established in other countries of the region. The establishment of the Interrepublican Commodity Exchange in the USSR was the testing ground for free market trading of commodities in that country, where traditional trading links provided by the former economic system were breaking up and the exchange fulfilling an important intermediate role.

63. Major changes have also taken place in the insurance field in conjuction with the current economic reforms. In spite of the varying conditions prevailing in the insurance sectors in the countries of interest, these changes have many common features such as privatization and the introduction of free market principles involving competition, though the main steps in this direction have yet to be taken.

64. In the USSR, legislation was produced which has broken the state monopoly in insurance

and permitted competition between state insurers, mutual insurers, joint stock companies and co-operatives. The legislation further made it possible for foreign insurers to participate in joint ventures with Soviet insurers.

65. Insurance legislation has been presented in Poland, modelled on English and French law, which will permit joint ventures with non-Polish insurers and ultimately envisages foreign insurers operating independently in Poland from 1993. One private Polish insurer has entered the marine insurance market outside Poland, and further moves appear inevitable as the newly emerging insurance companies compete to earn hard currency in foreign markets.

66. In Hungary, plans are advanced for the privatization of the state insurance company, and in Czechoslovakia a number of joint ventures in this field are being considered. Reforms in the insurance legislation are expected in Bulgaria and Romania.

67. Nevertheless, state insurers still appear to occupy the prime position in the maritime insurance market in these countries. Nowhere is there any indication that the state companies, which have a monopoly of local insurance expertise, intend to withdraw from the insurance market or give up their predominent position. However, state insurance companies may experience tough competition and may have considerable difficulties in retaining their skilled staff.

68. As privatization advances, enterprising individuals have taken the opportunity to do business independently as brokers, consultants, correspondents, lawyers and surveyors thus contributing to the development of an insurance market. But before such a market is firmly established, further legislation will have to be introduced to create the conditions for its proper functioning.

Chapter II

REVIEW OF THE SITUATION IN DIFFERENT COUNTRIES

A. USSR

69. Transport is one of the key elements of the USSR's programme for improving economic performance and promoting market conditions in the country. In recent years, it has become evident that the transport system of the USSR has been operating at the limits of its capacity, has failed to meet the requirements of passenger and goods transportation, and is experiencing difficulties in serving its foreign trade. Investment in transport and communications has dropped from 12 to 11.5 per cent of total capital investment in the last few years, resulting in a deterioration of the transport infrastructure. While an 8 per cent increase in the volume of goods transportation was reported between 1985 and 1987, the following years witnessed a drop. In 1990 a total of 12.2 billion tons of cargo was carried, 7.6 per cent less than in 1988 and 0.3 per cent less than in 1985. Only pipelines and inland waterways carried more cargo in 1990 than in 1985. Other transport modes, the share of which in total volume of transportation is 85 per cent, carried less in 1990 than in 1985.

70. The Law on State Enterprises has substantially expanded the economic independence of companies, in particular shipping companies, in relation to ministries and has paved the way towards their transformation into self-sustained financially independent transport enterprises. On 24 September 1990, the Supreme Soviet of the USSR gave the President emergency powers to take the economy towards a free market, including a mandate to privatize state-owned factories by transforming them into joint-stock companies with shares to be traded on a stock exchange. Soviet law (in respect of property, leasing, land, joint-stock companies, limited-liability) is being rewritten to promote and protect market exchanges among individuals and companies.

71. The Law on Currency Regulation, adopted on 1 March 1991, establishes the general principles of currency operations in the USSR and in international settlements, as well as the rights and duties of Soviet and foreign citizens and juridical persons in relation to possession and use of currency. The Law on General Principles of Entreprenewial Activity of Citizens of the USSR, adopted in April 1991, regulates rights, duties and responsibility in this field. Earlier, in October 1990, a law regulating foreign investments in the USSR was adopted.

(i) Merchant marine

72. USSR ocean shipping companies possessed 1,851 vesels, aggregating 22,464 dwt, at the beginning of 1990. This represents about 93 per cent of the total transport fleet of the USSR, which also includes the vessels of the river shipping companies (5.1 per cent), fisheries (1.4 per cent), the oil and gas industry (0.1 per cent) and other owners. The major part of the Soviet transport fleet is represented by oil tankers and ore/bulk carriers, as well as by general cargo single and multideck multipurpose vessels.

73. At the beginning of 1990, the Soviet merchant marine had 54 cellular container ships and a container fleet with a total population of 167,000 TEUs. Furthermore, it had 68 Ro-Ro vessels with a total capacity of 299,000 dwt. The average age of the Soviet merchant fleet was about 16 years and the share of vessels with an age of more than 20 years was 26 per cent. According to the USSR Ministry of Merchant Marine, about 6.8 million dwt of the fleet should be replaced before 1995.[12]

74. In 1989, about 12.2 million tons of cargo was carried in containers, and ports transhipped

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12 According to the Soviet Ministry of Merchant Marine, "the problem of the fleet's renual is being solved" (*Soviet Shipping*, No 2, 1991, p. 4). By the middle of 1991, 132 ships totaling about 2.5 million dwt were under construction at yards in Spain, Portugal, the Republic of Korea, Japan and Turkey. Nearly 100 ships (1.8 million dwt) were on order at Soviet shipyards and 111 ships - at the yards of the former CMEA countries. These will serve as replacements for those ships which should be scrapped during the period 1991-1995.

10.6 million tons of containerized cargo. Rail ferries carried 17.8 million tons in 1989, as against 18.9 million in 1988, of which the ferry service between Klaipeda and Mukran (in the former German Democratic Republic) carried 2.96 million tons and the service between Iljichevsk and Varna (Bulgaria) 2.9 million tons. The volumes of cargo carried by these two services have decreased substantially, and various measures are being proposed in order to improve the situation. A proposal to establish a joint venture for the operation of the ferry service has been under consideration.

75. Recently, Sovcomflot, the commercial joint-stock enterprise "Soviet Commercial Fleet", a shipowning enterprise specially created in 1988 which was acting as a broker for the other shipping companies, was authorised to mortgage its fleet and raise loans from foreign banks to order newbuildings abroad. The stockholders of Sovcomflot are state enterprises (shipping companies), but the company pursues its own commercial policy. In 1990 Sovcomflot had a fleet of 157 ships totaling 1.8 million dwt and actually controlled over 3.2 million dwt. The company has registered its ships under flags of convenience and used Western management companies to give it access to foreign finance.

76. Some Soviet shipping companies are taking their first steps on the way to privatization. In March 1991, the Latvian Shipping Company took a decision to convert itself into a holding company, with 51 per cent of its shares to be distributed among its personnel and 49 per cent among other proprietors.[13] The Black Sea Shipping Company (BLASCO) is also seeking some form of joint-stock shareholding. Another option is being explored by the Baltic Shipping Company (BSC), which is considering the possibility of leasing its assets from the State.

77. The first half of 1991 saw the establishement of the first Soviet private shipping companies. Small-scale companies were created in the ports of Vladivostok, Nakhodka and Novorossiysk to serve the needs of national and foreign trade.

78. Chartering activities in the USSR are concentrated in the hands of Sovfracht, a state-owned agency. This organisation is modernising and restructuring its activity by making its operational divisions more autonomous, restructuring itself as a joint-stock company and using its subsidiaries to reinvest hard currency in new ventures in the USSR.

79. The vast majority of Soviet and foreign companies continue to use the services of Sovfracht in their chartering activities. However, some new private companies have emerged to compete in the chartering market in the USSR. In 1989, Intershelf, a joint Soviet/United Kingdom broking company was set up to work in the offshore-vessels chartering market, specializing in engineering and gas projects in co-operation with the energy industries. This company subsequently branched out into dry-cargo chartering, fixing vessels up to 50,000 dwt. In Soviet ports, new agency companies have been established as private enterprises which are also branching out into chartering.

(ii) Rail transport

80. The network of railway lines in the Soviet Union is the second biggest in the world after the United States, but its use is much more intensive. This is illustrated in table 6.

Table 6

Comparison of the Soviet and United States railways

	Length, thousand km	Electrified lines, thousand km	Freight turnover, billion ton-km	Traffic density, million ton-km/km	Mean weight of freight train, tons
USSR	146.7	52.9	3924.8	26.8	3,120
USA	291.6	3.1	1483.2	4.85	4,666

Source: Business in the USSR", Moscow, April 1991, p. 31.

81. The most important railway lines are electrified and carry more than 60 per cent of the total

13 After the accession of Latvia to independence, this plan was abandoned.

traffic. The electrified network is the longest in the world. About 36 per cent of the total network is double-tracked. The high traffic density on the railways and the simultaneous stagnation and even decrease of capital investments have, however, led to the degradation of the track, signalling systems and rolling stock conditions. After a short period in the first half of the 1960s, when large-scale investments were made to convert from steam to electric and diesel traction and modernize track, safety installations and rolling stock, capital investment became scarce, while the volume of transportation increased dramatically. A large proportion of the available resourses was used for the construction of the new Baikal-Amur railway.

82. The railways possess about 200 container terminals, but handling of 40-foot containers is possible at only some of them. There is no container block train operation, except for the block trains of the Trans-Siberian Container Service (TSCS). In 1989, about 2 million TEU were transported in ISO containers by the railways, representing about 21 million tons. The total volume of transportation in containers, including small containers representing the majority of the container population, was more than 53 million tons.

83. A programme of modernization of the railway system has been elaborated with the purpose of upgrading the system to meet to modern requirements and increasing its capacity and quality of service. According to estimates, between 4,500 and 4,900 million tons of cargo will be carried by the railways in the year 2000 (4,116 million tons in 1988). Under the programme, about 9,000 kilometres of new line must be constructed and another 18,000 kilometres should be electrified, while three hundred marshalling yards are to be modernized. Major investments should be made in the modernization of rolling stock. The total programme will cost 150 billion rubles. Taking into account the scarcity of internal resources, the programme assumes large-scale foreign investment.[14]

(iii) Road transport

84. Road transport plays a very important role in the USSR transport system, but the road network, with the total length about 900,000 km, is far from capable of meeting modern requirements. About 38,000 kilometres are main highways carrying about 40 per cent of all cargo transported by interurban road transport. The most developed and best equipped road networks are in the Central and Baltic regions, the Ukraine and the Caucasus. According to some estimates, about 25-30,000 kilometres of roads need to be built or renovated.[15]

85. International road transport is carried out by the specialized foreign-trade agency Sovtransavto, comprising 12 trucking firms and transhipment terminals in major traffic-generating and transit centres of the USSR. Sovtransavto has also established several joint ventures with foreign companies involved in freight forwarding and agency business. Sovtransavto runs 20 regular trucking services to Europe, and the company is also involved in the TSCS. On average, the company hauls about two million tons of cargo a year.

(iv) Multimodal transport

86. The main impediment to the development of modern multimodal transport services has been the monopolistic organisation of the transport system of the USSR, where governmental organisations responsible for individual modes of transportation (rail, road, inland navigation and sea) created their independent organisational and operational structures. Although the volume of cargo transported in containers is relatively significant, a great share of this volume has been transported on a port-to-port or port-to-station basis, rather than door-to-door. In sea container traffic, the share of door-to-door traffic is up to 40 per cent. No more than one third of containerizable cargo is carried in containers.

87. The total container population of the USSR by the end of 1990 was about 300,000 TEUs belonging to 50 different owners. The most important owner is the merchant marine, with 167,000 TEUs, then follows the railways with about 120,000 TEUs. The vast majority of containers are

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14 *Business in the USSR*, Moscow, April 1991, pp. 30 - 31.

15 *Pravda*, Moscow, 15 May 1991, p. 3.

20-foot long 8-foot wide and 8-foot-6-inch high ISO dry freight boxes. Forty-foot containers are used only in international trades. In domestic trade, small 5 and 10 ton containers are widely used. Existing container production facilities manufacture about 50,000 TEUs a year, almost all of them dry cargo 20-foot ISO containers. Several new plants are under construction.

88. Till 1989, the only operator of international multimodal transport services in the USSR was a state-owned amalgamation Soyuzvneshtrans. Transit traffic, in particular that passing through the TSCS service, was controlled by Soyuztransit (SOTRA), also a state-owned company affiliated to the Ministry of External Economic Relations. The current economic reform has led to the intensification of business relations within the country and opened up external markets for numerous new players, including medium and small-sized enterprises and co-operatives. As a result, demand has grown for fast, reliable and comprehensive transport services for domestic and foreign trade. These developments have paved the way for the emergence of new independent operators in the field of freight forwarding and multimodal transport operations.

89. One of the most active enterprises established in the transport field is Sovmortrans, a freight forwarder which handles cargo within the USSR and abroad and organizes cargo transportation by sea, rail, road, inland waterways and air by unimodal or multimodal transport services, including storage, handling, customs clearance and other operations. Among its shareholders are the main ports, several foreign trade organisations and agency companies established abroad.

90. In 1990, a major United States multimodal mega-operator Sea-Land started several joint initiatives with various organisations within the USSR. These activities include use of TSCS, development of an intermodal sea-air container transport service with Aeroflot, connecting carrier agreements with BLASCO and BSC, contracting with Sovmortrans to serve as Sea-Land's agent in the USSR and opening of officies in several ports and transhipment points within the USSR, as well as implanting an electronic information system linking the USSR with the company's customers worldwide.

91. These ventures are service-oriented and aimed at attracting additional customers to the already existing services by upgrading their quality and, at the same time, adding to the company's global presence without large capital investments. Total investment in setting up these initiatives was less than $US 1 million. The same company has also established offices in other Central and Eastern European countries such as Czechoslovakia, Hungary and Romania.

92. Other joint ventures in the transport field include Euro-Asia Trans Inc., which offers a transit container service along the Trans-Siberian railway. A joint venture has been established to build and operate a large container terminal near Moscow to handle 150,000 TEUs per year at a total cost of about 100 million DM. In total, at the beginning of 1991, more than 2,000 joint ventures were operational in the USSR, of which slightly more than 3 per cent were active in the transport sector.

93. An association of international forwarders of the USSR was formed in September 1990 by four major freight forwarding companies. These four handle 90 per cent of USSR exports and imports. The association intends to regulate professional standards, improve freight services, including equipment provision, and lobby the Government and other relevant bodies on issues relating to cargo transport.

94. For the time being, there are no integrated data interchange networks for transportation needs in the USSR, though many ports and terminals are equipped with computer systems, modern container tracking equipment is available, and newly established companies in the forwarding field have computerized systems at their disposal. An association of electronic data transmission users has recently been created, its main task being to collect and put into common use the experience accumulated in the field of electronic data interchange (EDI) in the USSR and abroad in relation to the needs of transport organizations and to adopt EDI software and hardware for the whole transport system of the USSR based on international standards.

B. Poland

95. The transition of the Polish economy to an open economic system based on market rules, equal economic conditions for national and foreign subjects and freedom of economic activity was made possible with the adoption of the corresponding legislation in 1990. The main laws adopted that year were the law on state-owned enterprises, the rules of financial accountability of state-owned enterprises, the legislation on privatization of state-owned enterprises and the law on currency. This does not mean, however, that the transformation process is regarded as complete, especially in the sphere of the economy. According to present government policy, realization of a free-market economy includes the following steps:

(a) Privatization of state property;

(b) Further modifications of economic law; and

(c) Establishment of a capital market and a securities market.

96. The first step in the process of transformation involved restriction of the centralized economic system, implementation of the principles of managerial independence and self-financing of state-owned enterprises, and the development of the private sector.

97. The restructuring of the Polish economy is being implemented under conditions of deep recession and a heavy debt burden which result in a limited investment potential in the transport sector in particular. As in other countries of the region, the transport system in Poland suffered from the fact that capital investment by the State was oriented mainly towards the production sectors of the economy, with insufficient attention being paid to the service sectors and transport infrastructure.

(i) Merchant marine

98. The main functions attributed to the merchant marine in the previous planned economy system were servicing national foreign trade and earning of foreign exchange, and the Polish merchant fleet was developed in the pursuit of these goals. At the same time, because the industry was involved in Western transport markets, its organisation and operating methods were similar to those in the market-economy countries, even before the process of economic reforms started.

99. The policy of the State in the field of merchant marine affaires is based upon the principle of freedom in shipping. This policy assumes the equity of all participants in the market and freedom of competition, and according to the policy, in their operational activity merchant marine enterprises are guided only by the criterion of profitability and self-financing. No state subsidies are granted to the merchant marine.

100. At the end of 1989, the Polish merchant transport fleet comprised 249 vessels of 4,061,000 dwt operated by three state-owned shipping companies. These companies have strictly specified fields of activities: liner; bulk and general cargo in tramp shipping; and passenger and ferry operation in the Baltic. Polish Ocean Lines (POL), engaged in liner shipping, operates 29 semi-container vessels (341,000 dwt) with an average age of nine years, three full container vessels (49,300 dwt) with an average age of less than two years, and 13 ro-ro and con-ro vessels (144,100 dwt) with an average age of less than eight years. The container population of POL in 1989 was 14,400 20-foot and 11,500 40-foot containers. The company also had on lease 12,500 20-foot containers. POL also comprises two joint stock-holding companies with foreign capital and one with domestic capital. The bulk carrying fleet, operated by the Polish Steamship Company (PSC), consists primarily of dry bulk carriers with a total capacity of about 2.7 million dwt. Passenger ships and ferries are operated by the Polish Baltic Shipping Company, with 14 vessels of 19,173 dwt.

101. Although, during the period 1986 - 1988, the number of ships in the Polish merchant marine decreased from 261 to 249, the total deadweight increased from 2.8 million tons to 4.1 million tons, and the quality of the fleet structure significantly improved. The average age of the Polish fleet in 1988 was 10.7 years. The development of the container-carrying fleet was considered insufficient in terms of requirements and its possibilities of engagement in trade, but its further growth has been hindered by the lack of resources of shipping companies and the difficulty of obtaining credits

from the State because of the economic recession.

102. The total volume of cargo transported by the Polish fleet in 1989 was 28,299,000 tons, of which 5,618,000 tons were carried by liner shipping (see table 7). The Polish merchant marine has always been a remarkable source of foreign currency earnings. In 1988 the difference between foreign currency revenue and expenses was $US 184,617,000, representing the highest level ever achieved. The main reason for such growth was a sharp increase in the share of cross-trade (12,958,000 tons in 1989) and with the decline of Polish foreign trade this trend has continued. According to estimates, the total cargo turnover of Polish ports fell from 48 million tons in 1988 to 11.8 million tons in 1989 and 9.5 million tons in 1990.[16]

Table 7

Volume of cargo transported by the Polish fleet
(Thousands of tons)

Cargo type	1987	1988	1989
Foreign trade	19,099	18,240	13,447
Transit	2,199	2,024	1,682
Cross-trade	8,870	10,389	12,958
Others	135	174	212
Total	30,213	30,827	28,299

Source: : UNCTAD secretariat data.

103. Privatization in the field of maritime transport in Poland may meet major difficulties for the following main reasons:

(a) The high value of property owned by shipping companies; this makes selling shares difficult, especially taking into account the scarcity of private capital in Poland;

(b) The low rate of profit in comparison with other sectors of the economy, which makes it less attractive for potential shareholders; and

(c) The lack of financial institutions ensuring turnover of shares.

104. According to the current policy of the Polish Government, privatization in general should concern first of all enterprises menaced by bankrupcy, as well as the most efficient enterprises attractive to potential shareholders. Shipping companies provide a moderate profit and, therefore, do not fall under these categories. Moreover, there are two major players involved in the process of property conversion - trade unions and councils of employers - and their position may have a strong influence in this field.

105. Different scenarios are being considered in the process of privatization of Polish shipping companies, which is expected to be completed by the end of 1992, but in any case a change of structure involving the creation of a stock-holding company and its partition into different profit centres according to geographical sphere of activity are assumed as necessary stages. The profit centres will charter ships from the shipping companies and progressively become owners of ships. Participation of foreign capital is not excluded, but the majority holding should be kept by Polish interests.[17]

106. in contrast, to this, privatization in the field of auxiliary activities connected with distribution systems such as handling, storing, freight forwarding and delivery services, which are not capital intensive, is regarded as not posing major problems and being possible in the near future.

107. Privatization of ports is questionable in the immediate future. The ports are currently owned by the State and operated by the Ministry of Transport and the Maritime Economy. According to Gdynia port authority, the main container port in Poland, the following decisions could be envisaged in connection with possible privatization:

16 *Lloyd's Shipping Economist*, London, October 1990, p. 6.

17 *Le Lloyd*, Antwerp, 15 May 1991, p. 1.

(a) Leasing of port facilities/areas to private companies. This option is favoured by the present port administration;

(b) Taking over of the port by municipal and regional authorities under the same model; this option is less favourable, since it would leave the questions of port development to local authorities, which might not reinvest profits for the benefit of the port;

(c) Establishment of trust funds to administer ports; and

(d) Privatization of the port authority; this option is not being considered by the present administration.

108. Internal reorganization is now taking place in ports, with the creation of autonomous profit centres where managers are entrusted with the profitable running of their sections. The privatization of these units and the establishment of new companies to operate in the port is likely.[18]

109. Container traffic is handled primarily by the port of Gdynia, which has a modern container terminal with a transhipment capacity of 130,000 TEUs. In 1988, this terminal handled 120,137 TEUs or 989,400 tons of containerized cargo. About 30 per cent of general cargo passing through Polish ports transit to other Central and Eastern European countries - Hungary and Czechoslovakia. In spite of the modern equipment of the Gdynia container terminal, its productivity is substantially lower than in other European container terminals. Together with a poor inland distribution system, this leads to diversion of some transit cargo to west European ports. Ports such as Bremen/Bremerhafen and Hamburg in north Europe and La Spezia in the Mediterranean, which are more productive and have better developed road and rail infrastructures in their hinterlands and advanced distribution systems, are more competitive and may divert cargo previously gravitating to Polish ports away from those ports.

(ii) Rail transport

110. Poland has a developed railway network, the total length of which amounts to 26,543 kilometres, two thirds being single-track lines. The railways constitute the main means of transportation for long-distance traffic in Poland. Though the cargo share of railways does not exceed 16 per cent of the total tonnage carried by all means of inland transport, their performance in terms of ton-kilometres reaches 70 per cent of the national total, with an average length of haul of about 290 kilometres. About 88 per cent of the total traffic is carried by the mainline system, mostly electrified, with a length of about 11,000 kilometres. The network is in general well maintained, with about 40 per cent of the lines permitting a speed of over 100 km/h and 19 per cent of the lines adapted to passenger trains with a speed of 120 km/h or more. About half of the network is equiped for 21.5-ton axle loads. The state of signalling and safety installations often does not meet modern requirements, and a significant part of the rolling stock is obsolete and does not match the structure of traffic: because of the structural changes in production industry and the growing share of highly processed goods at the expense of raw materials, there is a surplus of wagons for carriage of bulk cargo and a shortage of rolling stock for transportation of general cargo.

111. As in other countries of the region, the railway is owned and operated by the state enterprise Polish State Railways (PKP). This is a multipurpose organisation dealing not only with transportation and maintenance of its infrastructure, but also with repairing rolling stock and production of different elements of track and other equipment. According to the Polish Ministry of Transport and the Maritime Economy, this highly centralized and heavy structure should be transformed, with the organisation of profit centres, creation of freight-forwarding enterprises and separation of industrial and other non-transport activities. Major investments are needed in order to upgrade infrastructure, rolling stock and other equipment of the Polish railways.

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18 *Lloyd's Shipping Economist*, London, November 1990, p. 16.

(iii) Road transport

112. With an average road density of 563 kilometres per 100 square kilometres, the road network in Poland is in line with the networks of other developed countries of Europe. Its total length is about 335,000 kilometres, but parts do not meet modern requirements. Only one per cent of the roads are expressways and two-lane motorways. The technical condition of roads and bridges is often poor, requiring repairs or modernisation. In the rolling stock of 919,000 vehicles, the share of vehicles with a capacity of 2 -3 tons is about 60 per cent. State-owned companies own 515,000 vehicles, or 56 per cent of the total fleet, and the rest is in the hands of private enterprises which use them, in general, for transport for their own account. Transport for hire and renumeration is provided by state companies, the biggest of them being Polish Motor Transport (PKS).

113. The volume of transport of goods by road in 1989 was 1,809,909 tons (79 per cent of the total volume of goods carried by all means of transport) and the cargo turnover was 49,762 million ton-kilometres (12.7 per cent of the total turnover of all transport modes).

114. In the field of road transport, privatization started long ago. During the period 1980-1989 the Polish Government undertook a partial reform of the economic system, and legislation was introduced to stimulate economic freedom of enterprises. Under this legislation, independence in relation to management, application of market prices, planning of production activities, possibility of transformation into stock-holding companies and the creation of joint ventures with foreign capital were provided for. Some 30,000 one-truck transport firms have been established. It is estimated that the volume of goods carried by state road-transport operators has decreased from 2.1 billion tons in 1980 to 1.3 billion tons in 1989 and that the volume of goods carried by private companies increased during the same period from 0.2 to 0.5 billion tons. At the same time, state-owned enterprises are becoming more specialized and seek more effective methods of operation, in particular by leasing vehicles to drivers, thus stimulating them towards more productive use of these vehicles.

(iv) Multimodal transport

115. Multimodal transport and freight forwarding activities in Poland have for a long time been monopolised by one company, C. Hartwig, but under the economic reforms undertaken after 1981, the regulation prescribing the mandatory use of this company for all freight-forwarding operations was abandoned, leaving more freedom for shipping companies and other enterprises in the field of freight forwarding. Several independent local companies and joint ventures involving the participation of foreign interests have recently been established, but further development in this field is hindered by the limited demand caused by the precarious economic situation of the country.

116. Polish Ocean Lines has its own inland distribution system, not only in Poland but also in other European countries. It uses its own containers and road vehicles, as well as an electronic data processing (EDP) system. The company is also engaged in multimodal transport operations in the United States.

117. The restructuring of the Polish merchant marine has permitted a certain increase in containerized traffic in relation to the total volume of cargo carried by POL (from 1,775,000 tons or 34.6 per cent in 1985 to 2,166,000 tons or 39.9 per cent in 1989). The highest levels of containerization of cargo was achieved on the London line (95.4 per cent), the North America line (92.9 per cent), the Far East line (88.7 per cent) and the Australia line (85.9 per cent). At the same time, because of its structure and the insufficient development of inland distribution facilities, a very substantial part of Polish foreign trade cargo is still transported conventionally.

118. There is a good basis for the development of multimodal transport operations in Poland, namely: a modern containership fleet, a growing container population and a developing container manufacturing industry, a container terminal with modern handling equipment in the port of Gdynia, the EDI system of POL and an inland transport infrastructure which, though it requires upgrading, is quite well developed. Door-to-door service accounted for 85 per cent of the total volume of container transport operations of POL in 1989.

119. The large number of new private transport enterprises, especially in the road transport sector, which are also engaged in consolidation, storing and freight-forwarding activities, has created a competitive environment in the transport field. These enterprises have become a major

factor in the development of multimodal transport, for which there is growing demand in the national economy and for foreign trade. The Polish railways have already established a network of container block-train operations connecting ports with inland and border crossing points. Test runs of container block trains on the route Gdynia-Vienna have been carried out.

120. The poor condition of the telecommunications system in Poland is one of the major obstacles to the development of modern multimodal transport operations. For exemple, POL has developed its own EDI system in North America and in Western Europe but has difficulties in data transmission between its own divisions, as well as with the railway, ports and customers in Poland. The other factor that inhibits EDI development is the lack of standardization in the data field. Different transport enterprises use their own codes, often incompatible with international standards, and small enterprises cannot afford to acquire computer systems.

121. The development of the transport infrastructure, the renovation of rolling stock and the upgrading of the telecommunications system require massive investments. The current policy of the Polish Government is directed to the creation of favourable conditions to attract foreign capital in different forms, including direct investment, joint ventures, credits, etc. Transport and telecommunications have been chosen as priority sectors for foreign capital inflow, which is considered an important factor for the development of these sectors.

C. Czechoslovakia

122. Although Czechoslovakia is a land-locked country, it has a substantial ocean-going fleet (the biggest among land-locked countries) operated by Czechoslovak Ocean Shipping (CNP). This fleet consists of 18 vessels of 442,096 dwt with an average age of less than eight years. Though the company is involved in cross-trading operations, transport of Czechoslovak foreign trade organizations' cargo represents the major part of its activity, accounting for more than 50 per cent of its total traffic.

123. Because of its position in the centre of Europe, Czechoslovakia is a crossroad for many international routes underlining the significance of its inland-transport system for international trade. This system includes the Czechoslovak State Railways (CSD), a state road transport enterprise (CSAD) and two state companies for inland waterway transport (for the Danube and the Elbe).

124. The railways' share in the total tonnage transported by all modes of transport in 1988 was 18.4 per cent and the share of railways in ton-kilometres performed by all modes of transport was 66.5 per cent. A total of 295 million tons were carried by CSD in 1988 generating 75,294 million ton-kilometres. The total length of the railways in 1988 was 13,102 kilometres, of which 3,800 kilometres are electrified (29 per cent) and 2,900 kilometres (22.2 per cent) have two or more tracks. There is a surplus of traffic capacity, especially in relation to the transportation of bulk cargo because of the decrease in traditional rail cargoes such as coal, ore, metals, building materials, etc. A total of 3,068 kilometres (23 per cent of the network) carries traffic accounting for less than one million ton-kilometres. Surplus traffic capacity could be used for greater involvement by the railways in combined road/rail transport. Certain investments are needed in order to upgrade the general infrastructure conditions on the main routes of prospective combined transport lines and to acquire specialised rolling stock. Such reconstruction should go hand in hand with the introduction of modern operating methods, including further development of container block-train operation.

125. By the end of 1987, the road network in Czechoslovakia was 73,112 kilometres long, of which 489 kilometres were motorways. There are some indications that the construction of motorways will be continued, and the problems of financing road construction are under consideration. In 1988, the state road transport company, CSAD, transported 1,280 million tons of goods and performed 23,767 million ton-kilometres. In addition, many enterprises provide road transportation on their own account, and several hundred private road-transport enterprises have been registered recently.

126. Multimodal transport operations and freight-forwarding activity is carried out by CSKD-Intrans, a state-owned company connected with the state railways, and by Czechofracht,

a state-owned freight forwarder acting on behalf of state foreign trade organizations. Intrans acts as a container and swap-body haulier and as the Intercontainer agent for Czechoslovakia in providing door-to-door services through 20 container terminals operated by the company. For the carriage of containers between terminals, rail transport is used, and for the final delivery road vehicles are used. The container population of the company consists of 20,000, TEUs mostly 20-foot dry-cargo containers, but also includes a number of specials (open-top, flat-racks, dry-bulk, etc.). The company also provides a multimodal transport service involving the use of river transport. From 1 January 1991, the foreign trade monopoly was abolished and the two state freight forwarders lost their monopoly. Their transformation into joint-stock holding companies is currently under preparation.

127. The transition to a free-market economy system is intended to involve the conversion of all state transport enterprises into commercial companies, some with predominantly state ownership and some into totally private companies with national and foreign shareholders. A law concerning small-enterprise privatization was approved at the end of 1990, and it was expected that a law concerning privatization of large enterprises would be approved in the course of 1991.

D. Hungary

128. Though the situation in Hungary as regards infrastructural, operational and managerial aspects of the transport sector is similar to that of the other Central and Eastern European countries, the first moves away from a rigidly structured national transport system date back to the transport policy declaration of the Hungarian Government in 1968. These moves included:

(a) The declared intention to develop road transport, owing to the significant quality advantages offered by this mode of transportation in the Hungarian conditions;

(b) The recognition of the diminishing role of the railways (closure of uneconomic lines);

(c) The will to improve international transport services meeting the needs of the country's foreign trade; and

(d) The admission of limited independence of state-owned transport companies.

129. This transport policy concept is still valid, since it is based on studies of trends and long-term projections in the transport sector and its orientation towards a more flexible system focused on customers needs.[19] In 1989, when there were already many small and medium-sized transport companies, especially in the road transport sector, the law on economic associations was adopted to remove certain limitations imposed by previous legislation. The new law opened up new possibilities for establishing public and private share-holding companies with or without foreign-capital participation. As in Poland, a foreign company can own 100 per cent of the capital and repatriate all profits if desired.

130. The total length of the Hungarian railways by the end of 1988 was 7,828 kilometres, of which 2,264 kilometres or 29 per cent were electrified and 1,223 kilometres or 15.6 per cent double-tracked. In 1987, the volume of traffic carried by the railways was 114.9 million tons or 16.6 per cent of the total cargo traffic carried by all means of inland transport, with a performance in ton-kilometres of 21,729 million or 54.7 per cent of all inland modes of transport. The share of railways, however, has been steadily declining. The condition of the railway infrastructure and equipment nesessitates major works and investments. The governmental railway investment programme emphasizes track rehabilitation, signalling facilities renewal and further electrification of the main lines. Some low-density lines are identified for probable closure.

131. The total length of the Hungarian road network is 29,715 kilometres, of which 311 kilometres are motorways. In 1988, road transport carried 546 million tons of cargo, or 80.3 per cent of the total volume of cargo carried by all modes of transport, and its performance was 13,210 million ton-kilometres, or 32.1 per cent of the performance of all modes of inland transport.

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19 "Transport in Central and Eastern Europe in the light of recent political and economic developments", report of the secretariat of the UN Economic Commission for Europe (TRANS WP5 R.25 paras. 32 and 33), Geneva, 13 August 1990.

132. Substantial rehabilitation and modernisation of the road network is required. Over 5,000 kilometres of national road network, vehicle weight has to be limited after each winter period, and strengthening and major repair works are needed for about 13,000 kilometres of roads.

133. The Hungarian state railways' container operation division, Mavtrans, in 1990 handled about 50,000 TEUs. More autonomy is being sought for this operator in relation to its parent railway company. Container movements have significantly fallen in recent years because, in particular, of a slump in trade with the USSR. In the 1980s, the largest rail transhipment depot, situated at the USSR-Hungarian border moved 18 million tons of cargo per year, but by 1990 this figure had fallen to 9 million tons and the estimate for 1991 is 6 million tons.

134. Another container operator, Budapest Container Terminal, operated by the Hungarian shipping company, handled about 19,000 TEUs in 1989 but about 20 per cent less in 1990.

135. A basic transformation of the Hungarian road transport sector is under way. The number of private carriers, primarily small road operators, reached 3,500 in 1989, thus creating a free-market environment, and their share in goods transportation was 5 per cent. According to Hungarian transport experts, road transport is considered the key element in the development and modernization of the national economy and the main player in multimodal transport services.

136. Though not very successful (only 1,100 consignments in 1989), first tests involving different combined transport technologies have been carried out, and terminals equipped for piggy-back traffic have been set up. The most promising trades for such traffic are thought to be Sopron - Ruhr area (Germany), Budapest - Goteborg (Sweden) and Budapest - Cologne (Germany).